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## Chief Financial Officer's Vision Statement

The Department continues to make the reform of financial management one of the Department's major initiatives. Reform is essential to correct long-standing financial management problems. Inefficient financial management systems and practices can waste money that is needed to sustain sufficient combat power. Also, whenever inefficiencies are noted, the understandable congressional and public response often is to attack and reduce the overall Department of Defense (DoD) budget without a clear vision of the effect that such macro-level reductions have on the Department.

The financial management reform program designed by the Department to correct its financial management deficiencies is built around three dominant initiatives:

- Business process reengineering,
- System standardization, and
- Consolidation of operations.

Simultaneous major initiatives are underway in all three areas and each initiative embraces a number of supporting and interlocking actions. Because each of these three initiatives are interconnected, improved financial management is dependent upon the completion of each of these initiatives.

### ***Subsection 1.1. Business Process Reengineering***

The success of the Department's financial management reform depends upon a reengineering of its business practices. Fundamental change is essential; merely automating current practices only would speed the handling of data that is incapable of integration into useful results. Although a difficult, time-consuming process, the Department has conducted baseline studies of current procedures, is eliminating needless or duplicative processes, and is standardizing and consolidating the many systems and processes used in DoD financial management. This process now is well underway--with the overriding objective of assuring improved customer service.

Initiatives to simplify, standardize, and improve policy and procedures include both traditional guidance and the standardization of financial management data elements, formats and specifications to facilitate greater use of modern technologies. The use of technologies such as electronic commerce, electronic document management and teleservices also are being employed with the expectation of driving significant business process improvements.

Business process reengineering efforts include simplifying, standardizing, and improving financial management regulations and procedures. DoD financial management policy and procedures have been consolidated into a 15 volume "DoD Financial Management Regulation" (FMR), which is expected to replace some 70,000 pages of separate DoD Component regulations. Hard copies of the FMR no longer are issued; all 15 volumes are available at a DoD web site on the

Internet. However, if needed, paper and CD-ROM copies can be ordered from the Defense Automated Printing Service through the DoD web site on the Internet.

Of course, business process reengineering extends beyond financial management into other functional areas such as personnel, logistics and acquisition. The financial management community cannot operate in isolation from other functions. In fact, it has been estimated that the financial community is reliant on the data captured in other communities for some 80 percent of the data used in its processes. Therefore, the Department's intent is to capture information once, at the source, and transmit it to various using functions (both financial and non-financial) via electronic media.

A greater degree of automated information exchange is being sought between the Department and its trading partners. The huge volume of paper associated with financial management today must be eliminated--replaced by electronic transfers of vendor invoices and receiving reports, payments via electronic funds transfer, on-line financial reports, and the like.

### **Subsection 1.2. System Standardization**

The myriad of prior existing, duplicative systems has been substantially reduced--from 324 in FY 1991 to 156 in FY 1997--but must be reduced further. To accomplish this, the Department's current strategy aims to eliminate as many systems as feasible by consolidating finance and accounting functions to a select set of migration systems. This elimination of redundant systems has freed resources needed to support reengineered financial information requirements.

The Department is integrating its migration systems in consonance with the Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," in order to ensure compliance with the Federal Managers' Financial Integrity Act. Selected migration systems may be used until the transition is made from current systems to standard, integrated systems. Using migratory systems should facilitate more rapid implementation of a fully integrated standard suite of departmental finance and accounting systems. All of this should improve both the quality and consistency of the Department's financial information.

### **Subsection 1.3. Consolidation of Operations**

As of September 1997, the Department has reduced the number of sites performing finance and accounting functions from 332 to 51. The end-state goal is 26 by the end of Fiscal Year (FY) 1998. This highly streamlined structure facilitates streamlined operations, improves accountability, reduces data reconciliation requirements, complements the use of integrated systems and focuses customer service. Operating at fewer sites also promotes consistency in operations and improved internal controls, as well as provides considerable economies of scale substantially reducing the Department's cost of accounting and finance operations.

## **Chief Financial Officer's Goals and Strategies**

The Under Secretary of Defense (Comptroller)'s "blueprint" is expected to lead the Department in its effort to "construct" financial management reform. This blueprint includes the goals and strategies provided below. These reforms aim to streamline and redesign DoD financial processes, systems and organizations in order to make them optimally effective and reduce costs. These reforms also seek to ensure that DoD financial management better fulfills the needs of its leaders, meets statutory requirements, maximizes efficiency, minimizes opportunities for fraud, and provides superlative customer service.

### **GOAL: CONSOLIDATE FINANCE AND ACCOUNTING OPERATIONS**

- Minimize the number of sites performing finance and accounting functions.
- Utilize an organizational structure that facilitates standardized and streamlined operations.
- Attract, retain and develop highly qualified financial professionals.
- Provide timely, reliable and cost effective reporting, analysis and advice that is user friendly and satisfies the needs of users of that information.

### **GOAL: REDUCE THE NUMBER OF ACCOUNTING AND FINANCE SYSTEMS AND IMPROVE THEIR CAPABILITIES**

- Eliminate unnecessary systems and consolidate finance and accounting functions to a select set of migration systems.
- Enhance systems to comply with statutory, regulatory and audit requirements.
- Employ technology improvements to develop standard systems that use standard data and logically integrated or interfaced databases.
- Integrate or interface with other business communities through the use of standard data elements.
- Comply with "Year 2000" systems requirements.

### **GOAL: REENGINEER DOD BUSINESS PRACTICES**

- Implement revised procedures that eliminate needless or duplicative processes.
- Simplify, standardize and improve financial management regulations and procedures.
- Utilize electronic commerce, electronic data interchange and electronic funds transfer across the financial management community.

**GOAL: STRENGTHEN INTERNAL CONTROLS**

- Improve accountability by ensuring that management controls are integrated into day-to-day operations.
- Enhance the funds distribution process.
- Strengthen fraud detection and prevention programs.

**GOAL: MAINTAIN A DEPARTMENT-WIDE FRAMEWORK TO PROVIDE FOR SOUND FINANCIAL MANAGEMENT**

- Maintain financial management oversight structure that better ensures the involvement of the Department's senior leaders in the financial reform process.
- Strengthen the partnership between the financial community and the non-financial functional communities that generate financial transactions.

# **FINANCIAL MANAGEMENT STATUS REPORT AND FIVE-YEAR PLAN**

## INTRODUCTION

Since passage of the Chief Financial Officers (CFO) Act in November 1990, the Department has made commendable progress toward improving financial management. However, much remains to be done to continue building on the momentum of the accomplishments already made. Recognizing this fact, the DoD financial management community has numerous projects underway to continue improving and streamlining financial management, as well as the timeliness and accuracy of accounting data. These improvement efforts are resulting in the most comprehensive reform of financial management systems and practices in the history of the Department of Defense. This reform is driven by two pressing needs: first, the need to overcome decades-old problems in financial management systems and procedures; and second, the need to lower administrative costs by redesigning fundamentally the Department's fiscal operations.

### **Underlying Causes Of DoD Financial Management Problems**

Prior to January 1991, the Department of Defense had a totally decentralized mode of operations. Reflecting that reality, the three Military Departments and the major Defense Agencies had, until recent major reforms began, managed their own budget, finance, and accounting systems. As a result, they developed their own processes and business practices, geared to their particular mission, with little incentive to achieve compatibility with other DoD activities. As DoD missions became more complicated and organizations were required to interact more with each other, the incompatibility of systems and lack of standardization took a toll. Rather than redesigning its organization or standardizing its multitude of systems, the Department developed increasingly complex business practices to link its systems.

Such complexity left DoD financial systems prone to error or to demands that could not be met with the platforms, personnel, or time available. Moreover, there was an inherent inefficiency in having scores of incompatible organizations and systems that performed virtually identical functions. To correct this problem, the Department activated the Defense Finance and Accounting Service (DFAS) in January 1991, to implement standard accounting policies, systems and procedures throughout the Department. The overarching goal was to develop a single integrated finance and accounting architecture that (1) meets federal requirements; (2) operates in an open system environment; and (3) provides customer real time financial information that is accurate and complete.

This Chief Financial Officer Financial Management Five-Year Plan highlights the current status of DoD's financial management as well as the reforms being mounted to solve DoD financial management problems.



## Section 1

### Financial Management

#### **Subsection 1.1. Finance and Accounting Operations**

##### SUMMARY OF ACCOMPLISHMENTS

- As of September 30, 1997, 307 of the DoD field finance and accounting activities had been closed with their workload consolidated into five DFAS Centers and 17 DFAS Operating Locations.
- Savings resulting from the consolidation of finance and accounting operations total \$123 million through FY 1997.
- As of September 30, 1997, the portfolio of problem disbursements had been reduced from \$34.3 billion to \$9.2 billion in less than four years. (Problem disbursements represent disbursements that were made but where there is a problem linking the disbursements to the underlying accounting record. Such disbursements were made only after an independent government officer certified that there was a valid bill and that the Department had received the goods or services.)
- Improved the timeliness and accuracy of obligation data in the Department's accounting systems.
- Instituted new business practices which improved financial management, e.g., freezing payments from appropriations that are in a deficit funding, prevalidating disbursements to the underlying accounting record(s) before payments are made and requiring mandatory obligations for problem disbursements over 180 days old.
- During FY 1997, DFAS collected over \$208 million in individual and contractor debts owed to the Department.

Since its activation in January 1991, DFAS has been the Department's pivotal agent for financial management reform and consolidation. DFAS now processes a monthly average of nearly 9 million payments to DoD personnel; makes 2 million payments on commercial invoices; settles 675,000 travel vouchers; issues 550,000 savings bonds; pays 340,000 transportation bills of lading; and disburses an average of \$22.2 billion.

Before consolidation began in FY 1994, the Department's financial management operations were conducted at over 330 field installations or sites. By transitioning to five DFAS Centers and no more than 19 operating locations, the Department has been able to eliminate redundancy and unnecessary management layers, facilitate standardization, improve and speed up operations and increases responsiveness to customers, increase productivity, facilitate the expanded use of innovative technology, and enhance financial management support to DoD decision makers. As of September 1997, 92 percent of the consolidation was completed, with only 25 sites remaining to be consolidated, and two operating locations remaining to be opened. By the end of FY 1998,

DFAS will complete consolidation and make possible operational savings of \$120 million annually. Figure 1-1 below identifies the DFAS Centers and the locations of the operational Operating Locations.

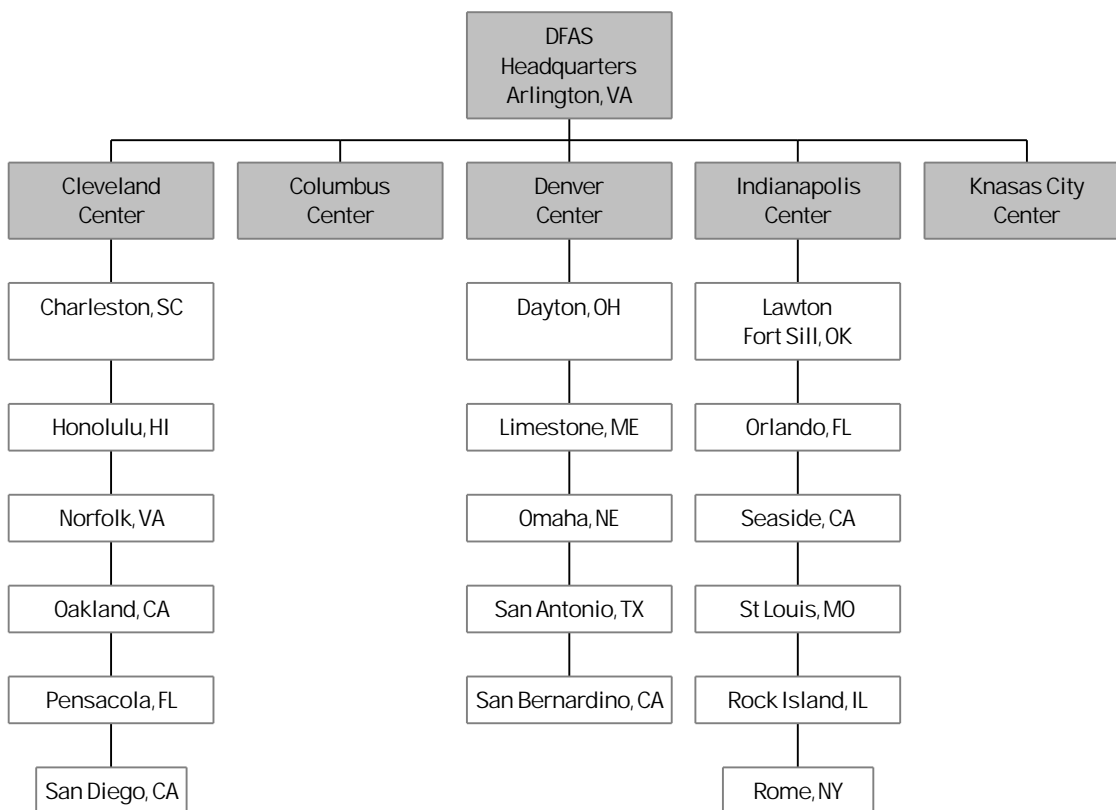


Figure 1-1

The DFAS Centers and the Operating Locations accomplish the processing of day-to-day financial transactions. These Centers and Operating Locations pass information among one another and other functional users and provide finance and accounting services and financial information to DoD customers. Specific Centers and Operating Locations provide consolidated processing, such as centralized payroll and security assistance fund management. Financial analysis services are provided by the DFAS Centers, although financial information also is analyzed and reviewed by local command personnel.

Certain functions that support the finance and accounting mission are best performed at the installation level. For this reason, each DoD Component is expected to maintain a structure that

interfaces with the DFAS Operating Locations. The following are the types of functions that are being retained at the installation level to support both installation commanders and DFAS Operating Locations:

- Funds distribution
- Approval of travel obligations and travel order data
- Review of travel claims prior to forwarding them to the operating locations
- Provision of electronic data and forwarding of documents to the Operating Locations
- Assistance to the Operating Locations with follow-up on problem transactions
- Preparation and processing of collection vouchers for checks and cash received locally
- Reconciliation of funding document differences
- Monitoring of legal limitations
- Printing of hard copy reports as required
- Interpretation of accounting reports for the installation
- Inputting of civilian pay data
- Inputting of accounting transactions (e.g., commitments, earnings, funds, inventory transfers, and real property transfers)
- Processing of receiving reports
- Provision of military pay liaison for inquiries and data entry.

There are two major types of financial operations within the Department--Finance and Accounting. Finance operations include the processing of payments to DoD personnel, retirees, annuitants and private contractors. Accounting operations record, report and analyze financial activity.

#### **A. Finance Operations**

##### **1. Military Pay**

The Department's military pay operations support about three million uniformed men and women in the following categories, each with its own statutes, rules, regulations, and unique support structures: (1) Active Duty, (2) Reserve and National Guard, (3) Academy Cadets and Midshipmen, (4) Reserve Officer Training Corps (ROTC), (5) Junior Reserve Officer Training Corps (JROTC), and (6) Armed Forces Health Professionals Scholarship Program. About 1.5 million active duty personnel are paid twice a month (97 percent via electronic funds transfer), while most of the other categories are paid less frequently--monthly or as otherwise required.

Timely and accurate financial management and strength accountability reporting, as well as pay of personnel, is dependent on data generated by over 300 interdependent personnel systems. The

interfaces among military personnel systems and military pay systems generally are adequate, with two critical exceptions: neither the Army personnel/DFAS pay interface nor the Navy active/reserve personnel interfaces are automated. Data handling in both cases is either mechanical or manual, thereby, not only involving excessive operating costs, but also risking system failure when “stressed,” such as in a general mobilization. To correct this problem, the Army has funded, and is currently developing, mechanical interfaces for the data that supports all of the most important pay events, e.g., accessions, promotions, reenlistments, and separations. The Navy plans to merge its active and reserve personnel systems versus building an interface between the two. This not only will solve any potential mobilization pay/personnel problem but also will eliminate personnel/pay interface problems associated with the personnel systems.

## 2. Retiree and Annuitant Pay

Military retiree and annuitant pay has been consolidated into the Defense Retiree and Annuitant Pay System (DRAS), with all retirees paid from the DFAS Cleveland Center and all annuitants paid from the DFAS Denver Center. This consolidation not only standardized policies and procedures across the DoD Military Services, but also reduced the costs of maintaining multiple systems. The DRAS consolidation effort effectively replaced eight systems and was completed on April 1, 1995. To accommodate growth in the customer base, the Department continues enhancing technology and operations. In February 1996, a Business Process Review (BPR) of the DRAS electronic document management process was initiated. The purpose of this BPR was to develop options for implementing a standard business process to maximize automation capabilities and enhance the workflow operations. The BPR has been completed, and on December 1, 1997, a suite of modern technology was approved that is expected to provide increased storage capacity, improved functionality and a more effective document management program. Additionally, a commercial activity study, under the OMB Circular A-76, “Commercial Activities Program,” was initiated in this area in December 1997 and is expected to be completed the latter part of FY 1999.

## 3. Civilian Pay

Approximately 770,000 DoD civilian employees are paid through 2 systems from 5 locations. This is a substantial reduction in the original number of 27 systems and 350 payroll offices that were required before the Department began to standardize finance and accounting operations and systems. Over 703,000 employees currently are paid using the Defense Civilian Pay System (DCPS) from the DFAS-Denver Center and the DFAS operating locations in Charleston, SC and Pensacola, FL. Approximately 67,000 employees are paid using the Defense Business Management System (DBMS) from the DFAS-Columbus Center. All civilian payroll accounts are scheduled to convert to DCPS by May 1998. Time and attendance data are captured at the workers’ site and transmitted electronically to the payroll offices for the DCPS and DBMS. Over 90 percent of the Department’s civilian employees receive their pay via electronic funds transfer.

For DCPS, installation personnel are responsible for entering and certifying time and attendance data and employee initiated payroll changes such as U.S. Savings Bonds, taxes, address changes, and the like. DFAS has implemented standard interfaces between DCPS and the personnel and accounting systems.

#### 4. Vendor Pay

Vendor pay is the payment of commercial invoices except for payments on the Department's centrally managed (usually large) contracts. Annually, vendor pay operations process nearly 55 million transactions (including contracts, modifications, receiving reports, and invoices) in making payments that total over \$98 billion. Currently, payments to vendors are processed at the installation level and supported by varying degrees of automation. For the most part, the procedures and automated systems have been customized for each DoD Component, some major commands and individual installations. Similarly, the interfaces between the current vendor pay systems and their associated acquisition, receiving, accounting, and disbursing systems are in various states of automation with many unique applications.

Vendor pay operations are planned to be consolidated at five locations by September 30, 1998. The consolidation location will be the DFAS site that performs the accounting for the activity that initiates the procurement. The integration of accounting with the primary source of accounting transactions should enhance the timeliness and accuracy of accounting records, while greatly decreasing the level of effort involved in account reconciliation. Significant savings and improved accounting reports are expected from this alignment. Furthermore, it is planned that the Department will reduce, to three, the number of vendor pay systems. The goal is a single vendor pay system, which will be possible when a single suite of accounting and disbursing systems is identified for use throughout the Department. The proposed standardized DoD system for contract and vendor payments (currently under development) is the Defense Procurement Payment System (DPPS).

In addition, the Department intends to conduct a minimum of 85 percent of the Department's vendor pay business via Electronic Commerce/Electronic Data Interchange (EC/EDI). EC/EDI is being implemented throughout the vendor pay process, including both contracts and contract modifications, requisitions, invoices, receiving reports, application advices, payments orders, and electronic funds transfer (EFT) payments.

#### 5. Transportation Pay

The transportation pay process involves making approximately four million payments annually for Government Bills of Lading and Government Transportation Requests. Three different systems are currently in use. Over 80 percent of the Department's payments to transportation carriers are made by the DFAS-Indianapolis Center; payments for the Navy are made from Norfolk, VA, and payments for the Marine Corps are made from Albany, GA.

As part of the implementation of the Defense Transportation Payment System (DTRS), the Navy and Marine Corps transportation pay operations are planned to be consolidated at the DFAS-Indianapolis Center. Most of the Department's transportation pay expertise already is resident at

the DFAS-Indianapolis Center, and implementation of a modern transportation payment system already is in progress. The resultant single automated payment system should include interfaces to the appropriate DoD Component transportation management activities and will maximize the use of electronic data interchange/electronic commerce.

#### 6. Travel Pay

In 1995, DoD established a Travel Reengineering Task Force to streamline temporary duty travel. Based on the recommendations of the task force, the Deputy Secretary of Defense directed sweeping changes in the Department's travel processes. The first action was to establish a Reengineering Travel Transition Office to formulate policies and procedures for temporary duty travel. In September 1995, a Program Management Office was constituted to design and acquire a new Defense Travel System. The Request for Proposals was released on June 30, 1997. Implementation of the new Defense Travel System (DTS), under the direction of the OUSD(C) Project Management Office (PMO), is expected to begin the latter part of FY 1998. The PMO will "phase in," over a three-year period, the conversion of current travel processes to the new system. The target date for completion is April 2001.

Version 5.0 of the Integrated Automated Travel System (IATS), was distributed at the end of September 1997, and provides a standard travel computation system for the DFAS, Defense Agencies, and all Military Departments. IATS 5.0 provides electronic funds transfer (EFT) among its many improvements over earlier versions. During implementation of the DTS, IATS will continue to compute vouchers for travel that is not covered under the DTS umbrella. As additional entitlement sections of the DoD travel regulations are simplified (i.e., reserve and permanent change of station), those types of travel may shift from IATS computation to DTS computation also.

#### 7. Disbursing

Disbursing, the process of making payments and receiving collections, is performed both at the DFAS Centers and installations. At the installation level, disbursing is performed for military pay (particularly "local" (partial) and advance payments), travel pay, vendor pay, and functions that have not yet been centralized at a DFAS Center. Some Centers, as well as some installation-level disbursing offices, have multiple Disbursing Station Symbol Numbers (DSSNs), necessitating multiple reports. Disbursing officers (the holders of DSSNs) report financial transactions to an assigned DFAS Center (or intermediate Defense Accounting Office under certain circumstances) on a daily, weekly, or monthly basis in accordance with financial reporting requirements. The Centers consolidate these reports with their Center-generated data and report the transactions to the Treasury Department.

On July 16, 1997, the DFAS established a Defense Standard Disbursing System Project Management Office (DSDS PMO). The scope of this effort includes all disbursing functions, policies, procedures, and systems within the Department. Included in this effort are the disbursing functions and systems of non-DFAS activities (tactical, classified, shipboard, other) to the extent they are governed by DOD disbursing policy, regulations, and /or utilize DFAS

disbursing systems. The DSDS PMO mission is to develop a strategy to recommend changes to the disbursing functions, policies, procedures, and systems of the Department. Specific objectives of the DSDS PMO are to:

- Allow for standard input transaction and produce not only the required disbursement, but also provide a standard output of accounting data. To the maximum extent possible, output is expected to be produced in an EFT format.
- Increase efficiency and effectiveness and reduce the cost of disbursing operations.
- Provide for system compliance with congressional/regulatory mandates and Year 2000 requirements.

In the interim, the Department plans to consolidate disbursing operations at its Centers and Operating Locations on interim migratory disbursing systems. To the maximum extent possible, all payments will be made by electronic funds transfer.

With the increasing use of electronic funds transfer, the printing of Treasury checks will be reduced substantially from the 260 sites performing this function today. This reduction will be accomplished in phases. Initially, when a field finance and accounting activity is consolidated, the bulk of its check printing function will be transferred to the supporting DFAS Center or Operating Location. At first, each Operating Location is scheduled to possess a check printing capability. During the second phase, all check printing is planned to be consolidated at the five DFAS Centers. During the final phase, all check printing is expected to be consolidated at no more than two DFAS Centers. Should the requirement for check printing decline sufficiently, it may be possible to consolidate all check printing at one Center.

Disbursing at the installation level largely will be eliminated. Most payments will be by electronic funds transfer from a DFAS Center or supporting Operating Location. Travel advances are expected to be provided through automated teller machines using the Government-wide travel charge card. Similarly, emergency local purchases are planned to be made using the Government-wide small purchase credit cards, with the actual payments made by a Center or supporting Operating Location. Where a disbursing capability is required at the installation level for customer service purposes, a deputy, or agent, can be appointed with limited cash authority (and limited check issuing authority in the case of deputies). These deputies, or agents, would be Military Service members or employees accountable to a DFAS Center or Operating Location disbursing officer.

#### 8. Debt Management

Debt management is an integral part of current military pay, retiree and annuitant pay, civilian pay, travel pay, and disbursing operations for those individuals owing debts to the government and are currently receiving pay (in-service) by the Department. Similarly, for contractor debts, initial debt collection activities are an integral part of current transportation payment, vendor payment, and contract payment operations. Debt collection procedures are designed to facilitate the prompt collection of debts from individuals and contractors, while providing full due process

in accordance with the Debt Collection Act of 1982. The debt collection process has been further improved with the implementation of the Debt Collection Improvement Act (DCIA) of 1996, which allows for the expeditious recovery of certain debts resulting from routine pay adjustments.

For individuals not receiving pay within the Department (out-of-service), debt management is centralized at the DFAS Denver Center with over 200,000 cases processed annually. Both individual out-of-service and delinquent contractor debt operations use the Defense Debt Management System (DDMS), hosted at the DFAS Denver Center, to maintain and manage their debt portfolios. The DDMS uses a wide range of collection techniques to collect debts owed to the Department including: (1) the automated process of sending dunning letters to debtors, (2) reporting delinquent debtors to credit bureaus, and (3) referring delinquent debtors to collection agencies for collection assistance and to the Internal Revenue Service for offset against an individual's federal income tax refund.

In FY 1997, over \$208 million were recovered in individual and contractor debt. Beginning in September 1997, the Department's delinquent debts were referred to the Treasury for matching against all available federal payments. This process implements the administrative offset provision of the DCIA of 1996, providing yet another tool to increase debt collection within the federal government.

#### 9. Contract Pay

Payments on approximately 96 percent of the 1.4 million invoices for the nearly 400,000 centrally managed, high dollar-value, U.S. and Canadian currency contracts (including European contracts paid in U.S. and Canadian currency) are made by the DFAS-Columbus Center or its detachment in Albuquerque, New Mexico. These payments are made mostly via an integrated contract management and payment system (Mechanization of Contract Administration Services (MOCAS)). Although MOCAS is no longer identified as the standard DoD contract payment migration system, it remains active and serves as an effective DoD contract payment legacy system. The newly proposed standardized DoD system for contract payments (currently under development) is the Defense Procurement Payment System (DPPS). One of the key elements of DPPS will be the systems integration with the Standard Procurement System, the Standard Logistics System, and the Shared Procurement Data Warehouse System. In addition to the contracts paid at the DFAS-Columbus Center, a relatively small number of large Navy contracts are paid using a variety of payment systems. The DFAS-Columbus Center also adds to the MOCAS database used by the Department's contract administration community, in addition to determining contractor entitlements and disbursing payments. Seventy percent of the dollar value of these major contracts is paid using electronic funds transfer.

DFAS also is implementing EC/EDI in the contract pay area. Currently, efforts are underway to transmit contract data from four major contract-writing systems to the MOCAS system and seven accounting systems. This automated effort will eliminate duplicate data entry and make timely distribution of contractual and financial data.



**B. Accounting Operations****1. Installation and Intermediate-Level Accounting**

Installation and intermediate level accounting includes not only maintaining an installation or intermediate commander's status of funds, but also maintaining required procedures and controls to ensure that proper accounting policies are followed. These accounting services are, for the most part, provided by the DFAS using existing DoD Component systems and procedures. The operations generally are performed at decentralized field offices located at the various installations. The DFAS-Columbus Center provides centralized accounting support to the Defense Logistics Agency, the Defense Contract Audit Agency, the Defense Commissary Agency, Navy and Air Force inventory control points, and the DFAS itself; other Centers have small accounting operations. These accounting functions are performed using a wide variety of systems.

The consolidation of the Department's installation and intermediate-level accounting is planned to be Component-aligned. This is a pragmatic decision primarily based upon system considerations. While a single standard DoD-wide system remains a fundamental long-range goal, the Department recognizes that this goal cannot be achieved within the desired consolidation time-frame. Instead, the Department has adopted the intermediate goal of developing standard suites of migration systems by Component. Initially, different migration systems are expected to be used for general and business fund accounting. This is necessary because of the multitude of interfaces with Component-unique feeder systems in other functional areas. Achievement of this intermediate goal will result in greater progress towards standardization than ever before has been attained by the Department.

**2. Departmental Accounting**

Departmental accounting involves the consolidation of status of funds and cash accountability reports at the agency and department level for submission to the Treasury, the Office of Management and Budget, and the DoD Components. Departmental accounting currently is performed at three primary sites on separate systems: (1) the DFAS-Indianapolis Center for Department of the Army, the Defense Agencies and Defense-wide funds; (2) the DFAS-Cleveland Center for the Department of the Navy and Marine Corps funds; and (3) the DFAS-Denver Center for the Department of the Air Force funds. The DFAS-Kansas City Center provides reports on Marine Corps funds to the DFAS-Cleveland Center and the DFAS-Columbus Center provides reports for some Defense Agencies to the DFAS-Indianapolis Center.

The DFAS is in the process of developing and implementing a standard Departmental Reporting System. The functional base of the system is to generate all financial and Treasury reports from the Standard General Ledgers (SGL).

Also, the DFAS has an immediate need to respond to regulatory financial management compliance requirements. These requirements include the consolidation of financial statements for the CFO Act reporting and streamlining the departmental fiduciary reporting process.

The Departmental Cash Accountability System development strategy will consist of several phases. The initial phase, expected to commence in March 1998, will address cross disbursing and will blend the Departmental Financial Reporting Reconciliation System Cross Disbursing Module with selected modules from the Departmental Cash Management System and Departmental Database-Expenditures. All modules will be reengineered in accordance with the Defense Corporate Information Infrastructure (DCII) guidelines and standards and the DFAS Technical Architecture.

### 3. Working Capital Fund Accounting

Defense Working Capital Fund operations cover a broad spectrum of unique business environments within each of the Military Departments and Defense Agencies. Accounting support has a heavy emphasis on cost accounting, inventory management and customer billing in order to identify the cost and revenue associated with business outputs.

Additionally, these accounting services are, for the most part, provided by the DFAS using existing DoD Component systems and procedures. The operations generally are performed at decentralized field offices located at the various installations. Accounting support is furnished today using a wide variety of systems that frequently are integrated with functional systems (e.g., inventory accounting). However, migration systems for most business areas have been identified and are undergoing modification to comply with federal accounting and reporting requirements and standards. Further, commercial-of-the-shelf applications are being used where applicable. The overall approved strategy for working capital fund systems is to migrate to a single accounting system for each Military Department or Defense Agency business area. While the basic strategy remains, opportunities have been taken advantage of where systems can be used to accommodate multiple services and business areas, thus further reducing the number of systems required to service the DoD community.

## C. Other Finance and Accounting Operations

### 1. Nonappropriated Funds Finance and Accounting

Nonappropriated funds finance and accounting for Army, Navy and Air Force installation-level cover the accounting, payroll, and bill paying operations for officer and enlisted clubs, hobby shops, billeting funds, and similar activities not funded from DoD appropriations. It does not include finance and accounting functions for the nonappropriated fund exchanges.

These functions are performed at 220 sites using a variety of systems: (1) the Air Force has 90 installations, each of which uses its own in-house finance and accounting system controlled, maintained, and updated by the Morale, Welfare, and Recreation Services headquarters located in San Antonio; (2) the Army has 20 sites, 75 percent of whose finance and accounting is performed at the Red River Army Depot in Texarkana, Texas; (3) the Navy has 110 sites using two systems that are controlled, maintained, and updated by its Morale, Welfare, and Recreation headquarters in Millington, Tennessee; and (4) the Marine Corps' nonappropriated funds are consolidated with the Marine Corps Exchange.

## 2. Security Assistance Finance and Accounting

Finance and accounting related to agreements that enable foreign governments to purchase defense articles and services requires over 500 DFAS work-years annually. More than half of this effort is centralized at the DFAS-Denver Center, Directorate for Security Assistance, which is the DFAS business manager for support to the security assistance program. Essentially, all stand-alone security assistance finance and accounting functions including accounting, billing, and debt collection have been consolidated there. Security assistance resources will continue to support operating locations where operations remain integrated with installation level processes. The Department's systems development concept includes moving all security assistance unique functionality to standard DFAS accounting systems.

### ***Subsection 1.2. Finance and Accounting Systems***

#### SUMMARY OF ACCOMPLISHMENTS

- Consolidated retiree and annuitant pay operations onto one standard system--the Defense Retiree and Annuitant Pay System, eliminating eight systems with a resulting cost reduction of \$10 million per year.
- Implemented a standard system and consolidated operating locations for out-of-service debt management functions. Five systems were eliminated resulting in a \$1 million per year reduction in systems costs while the consolidated operation resulted in an \$8.5 million annual savings.
- Travel computation software standardized and implemented DoD-wide.
- Consolidated DoD printing of savings bonds from over 190 bond issuing sites, using 20 different systems, to two DFAS Centers, and one system. The DFAS also has a standard automated process of safekeeping savings bonds for active duty military members.
- As of September 30, 1997, 703,000 civilian pay accounts have been transferred to the DoD standard system for processing civilian pay--the Defense Civilian Pay System (DCPS). This initiative allowed the Department to close 348 payroll offices and eliminate 25 of the original 27 civilian pay systems. This effort reduced the monthly cost of maintaining civilian pay accounts by over 35 percent between FY 1995 and FY 1997.
- As of September 30, 1997, eliminated 17 of the 22 former military pay systems.
- As of September 30, 1997, in addition to the above summarized accomplishments, the Department reduced the number of accounting systems from 197 in FY 1991 to 122--a 38 percent reduction.
- As of September 30, 1997, the savings from all financial systems standardization effort total \$329 million.

Currently, there are numerous finance and accounting systems in operation within the Department. The Department's goal, however, is not merely to consolidate these old systems. Rather, its aim is to create new, standardized, and more effective business practices that enable more efficient systems and produce more accurate and timely information. The Department is determined to streamline and strengthen its financial management, and facilitate the use of new technologies that reduce costs and improve service to its customers.

The Department expects to generate savings through the use of advanced technology and DoD-wide process improvements. Redundant finance and accounting systems, as well as the staffs that maintain them are planned to be eliminated (see Appendix I for the target accounting and finance systems). Similarly, financial systems that do not comply with accepted accounting principles and standards are expected to be replaced.

On April 17, 1996, the DFAS established a Defense Accounting System Project Management Office (DAS PMO). The scope of the DAS PMO includes all migratory, interim migratory, and legacy accounting systems that DFAS substantially owns and operates. The DAS PMO mission is to manage the reduction of existing accounting systems. The DFAS goal throughout this process is to provide accurate, timely and effective customer support at a lower cost. The overall objective is to field electronically linked accounting systems that comply with generally accepted government accounting principles and standards, comply with the CFO Act of 1990, and produce complete and accurate installation, command, DoD Component and departmental level accounting reports and financial statements. The mission includes the elimination of unneeded or obsolete legacy systems and the modification of systems, where necessary, to meet accounting system requirements. Specific objectives of the DAS PMO are to:

- Design a more optimum system architecture and reduce costs and manpower necessary to operate and maintain accounting systems.
- Interface or integrate accounting systems with other accounting, pay, and reporting systems.
- Replace current legacy systems throughout the Department with standard consolidated systems using technologically advanced data processing techniques and telecommunications capabilities.
- Standardize accounting data and processes, where appropriate and feasible.

Thus far, the number of finance and accounting systems has been reduced from 324 to 156 (see Figure 1-2 on the following page). This reduction is being achieved in conjunction with the Department's efforts to reform its financial management processes and achieve compliance with statutory and other regulatory requirements.

## DoD Finance and Accounting System Inventory

	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>
Accounting	197	192	176	173	164	150	122
Finance	<u>127</u>	<u>120</u>	<u>102</u>	<u>97</u>	<u>92</u>	<u>67</u>	<u>34</u>
Total	324	312	278	270	256	217	156
Reduction (cum)		12	46	54	68	107	168
Percent Reduction (cum)		4%	14%	17%	21%	33%	52%

Figure 1-2

**A. Target Architecture**

The DoD target systems architecture (see Appendix II) is expected to comprise a minimum number of finance and accounting applications to support core accounting and business requirements that are integrated, or interfaced, into the broader DoD functional and technical architecture. It is comprised of the core financial management applications, as well as mixed systems that are critical to effective Departmentwide financial management, financial reporting, or financial control. The following are features of the target systems architecture:

- standard processes and information classification structure that are consistent with the USGSGSL;
- accounting data captured at the source and at the level of detail necessary to support budgetary and financial requirements;
- employment of open system environment concept;
- use of standard data elements;
- integration/interfacing to share standardized data between unique functional areas;
- standard interfaces to update subsidiary and general ledger accounts;
- global edit tables to ensure data integrity;
- consistent internal controls to insure resource use is consistent with laws, regulations and DoD policies;
- accounting data maintenance to permit reporting in accordance with federal accounting standards;

- conformance with applicable functional requirements for the design, development, operation and maintenance of financial management systems;
- performance measurement capability to support budgeting, program management and financial statement presentation; and
- employment of security controls.

## **B. Systems Consolidation**

The myriad of prior, duplicative financial systems is being substantially reduced to decrease cost and achieve standardization. The Department's strategy aims to eliminate unneeded systems by consolidating finance and accounting functions to a select set of migration systems. The best financial management systems in the Department's inventory have been identified, are being modified as necessary to meet DoD-wide requirements, and implemented as migration systems by business category for use throughout the Department. Selected migration systems may be used until the transition is made from current systems to standard, integrated systems. Using migratory systems should facilitate more rapid implementation of a fully integrated standard suite of departmental finance and accounting systems. All of this should improve both the quality and consistency of the Department's financial information.

The migration systems are being implemented in three concurrent stages at the conclusion of which the process is expected to culminate in a financial management system comprised of a suite of standard integrated applications that are CFO and Year 2000 compliant. See Appendix III for a graphical depiction of the three stages described below.

### *Stage 1: Improve Core Accounting Systems*

During this stage, systems are being consolidated, generally along DoD Component lines. Enhancements to comply with CFO and Year 2000 requirements are being made along with standardized processes and data. This effort includes implementing the USGSGL and a standard budget and accounting coding structure.

### *Stage 2: Integrate Accounting Systems*

This stage integrates the accounting systems architecture through the development of a corporate database that links accounting applications and performs functions that impact both accounting and finance systems--such as prevalidation, cross disbursements and cash accountability. A warehouse capability to store and share data for financial management analysis also is planned to be established.

*Stage 3: Integrate/Interface Accounting and Business Environments*

This stage requires a complete transition to the DoD-wide system architecture and interface with the DoD nonfinancial business environments in a shared data environment to achieve accountability and auditability to source data.

The systems consolidation effort will use an incremental strategy that reduces systematically the number of accounting and finance systems and migrates to the target architecture. This strategy establishes clear, measurable and achievable objectives at each stage of the migration and minimizes the risk of overextending limited functional and technical expertise and resources. This strategy also better ensures that DoD achieves CFO and Year 2000 compliancy, as soon as feasible, while at the same time moving toward the target architecture.

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**Subsection 1.3. Business Process Reengineering****SUMMARY OF ACCOMPLISHMENTS**

- Developed and published a 15 volume “DoD Financial Management Regulation” that is being used DoD-wide. It replaces a myriad of nonstandard policy guidance, clarifies existing guidance where appropriate and includes additional guidance, as needed. Additionally, all 15 volumes have been posted on the Internet World Wide Web where they are accessible to all DoD personnel.
- Modified and expanded Working Capital Fund operations to improve financial management by providing a financial framework for more efficient and effective allocation of resources within the Department. The Working Capital Fund operates with financial principles that provide improved cost visibility and accountability that enhance business management and improve the decision making process.
- As of the end of FY 1997, 700 standard data items had been developed and recommended as the standard data required to conduct DoD-wide finance and accounting functions. To date, 540 of those items have been approved and are under the stewardship of the DoD Chief Financial Officer. Until recent consolidation efforts began, DoD finance and accounting systems required over 100,000 data elements.
- Over 91 percent of DoD civilian employees and military members paid by DoD have their pay directly deposited into their accounts using EFT. The direct deposit participation rate for travel payments has increased from 17 to 48 percent. Additionally, 57 percent of major contract payments are made using EFT, and account for 81 percent of total contract dollars disbursed.
- During FY 1997, 47 percent of progress payments and 18 percent of commercial invoices on major contracts were received via electronic data interchange (EDI).
- The use of EDI in accounting and vendor pay systems is streamlining DoD business processes and reducing data errors and transaction costs. DFAS, working with the business community, received approximately 700,000 EDI vendor invoices in FY 1997.
- The Electronic Document Management (EDM) system is installed at the DFAS Omaha Operating Location and is being implemented at the DFAS Columbus Center for contract pay. EDM involves the collective application of three technologies (i.e., imaging, electronic foldering and workflow) and allow users to view, retrieve, move and store documents electronically--rather than receiving and retaining hard copies of documents. The EDM will be deployed to all DFAS operating locations in the near future.
- The Department’s participation in the International Merchant Purchase Authorization Card program has grown to include over 107,000 cardholders with purchases totaling over \$2.2 billion for FY 1997. This constitutes about one-half of the Governmentwide purchases.
- The Department is continuing to implement its simplification of the temporary duty travel process for all DoD personnel. Results from testing the revised travel policies show a 48 percent reduction in process steps, a 56 percent reduction in process cost, a 48 percent reduction in payment cycle time and improved customer satisfaction.
- As of September 30, 1997, the savings from all EC/EDI, EDM and process improvement efforts total \$540 million.

A critical aspect of the Department’s financial management reform is the reengineering of its business practices, which are the procedures by which management and administrative systems



function. The goal is to make DoD business practices simpler, more efficient and less prone to error. Reengineering is being achieved by the revision of existing policies and procedures and the increased standardization, consolidation and compatibility of existing systems. Some of the major efforts that are underway are highlighted below.

**A. Garnishment Operations**

DFAS is continuing the reengineering of the processes by which the Department garnishes the pay of its civilian and military personnel for child support, alimony, commercial debt, and divisions of retired pay. Each month, DFAS processes over 12,000 garnishment orders from a single location. Over the next two years, DFAS will implement major improvements--most notably to integrate EDI and imaging into garnishment operations to increase efficiency and cut costs.

**B. Government-Wide Purchase Card Expansion**

The purchase card program is playing a major role in the Department of Defense's efforts to streamline the acquisition and related finance processes. The program allows individual DoD cardholders to purchase items and services (primarily at the "micro-purchase" level of \$2,500 or less) from vendors using a government-wide purchase (credit) card. The Department has shown significant improvement with the use of the purchase card, mainly due to the Department's recent reengineered business practices. From FY 1995 to FY 1997, the DoD realized (1) a sales volume increase of 175 percent to \$2.2 billion annually; (2) transaction volume growth of 200 percent to 5.0 million transactions per year; and (3) card expansion of 133 percent to 107,208 cards throughout the Department.

The purchase card will replace the paper- and labor-intensive acquisition processes in place today with faster and simpler procurements, faster payment to the vendors, less processing of financial and procurement documentation, and faster processing of commercial invoices. The government is procuring its requirements quicker and easier, vendors are getting reimbursed faster, and interest penalties from late payments are being eliminated. This is a "win-win" situation for all involved.

Many other finance and accounting policy and procedural changes also are taking place that will enhance the Department's ability to provide cheaper and better finance and accounting services to its customers. These reengineered business practices will enable an exponential increase in the use of the purchase card and generate millions of dollars of savings for the Department. For instance, the DFAS alone has projected savings in FYs 1998-2000 of \$184 million.

The purchase card reengineering initiative is consistent with the goals and objectives of the National Performance Review and the mandatory electronic funds transfer stipulated in the Debt Collection Improvement Act of 1996.

**C. Travel Reengineering**

The Department continues to implement its simplification of the temporary duty travel process for all DoD personnel. DoD changed counterproductive practices and designed a more seamless, paperless, less costly travel system that supports DoD requirements and provides excellent customer service. The Department also supported passage of the Travel Reform and Savings Act to remove statutory barriers to better business practices. In September 1997, the Vice President's National Performance Review presented DoD's reform team with the Hammer Award in recognition of its efforts to streamline government processes.

New DoD travel policies include:

- the use of simplified entitlements that delegate to appropriate officials the authority to approve exceptions to standard arrangements;
- the use of a government-sponsored, contractor-provided travel card to pay for expenses related to official business travel (travel advances, airline tickets, taxis, lodging, meals, conference registration fees, and incidentals);
- the removal of the requirement to have travelers obtain paper statements of nonavailability for government lodging and messing;
- an increase, from \$25 to \$75, in the amount of business expenses (except for lodging) for which receipts must be retained;
- the ability to use facsimile machines to file travel vouchers for reimbursement processing--the traveler maintains the original receipts just like individual income tax receipts; and
- the use of electronic funds transfer to reimburse travelers.

Before fully deploying its new Defense Travel System, the Department pilot tested these revised policies at 27 sites, representing each of the Military Services and several Defense Agencies. Results from the test show (1) a 48 percent reduction in process steps, (2) a 56 percent reduction in process cost, (3) a 48 percent reduction in payment cycle time, and (4) improvement in customer satisfaction of both travelers and their authorizing officials.

**D. Standardization of Data**

The standardization of financial and other data continues to receive significant emphasis. A data administration program is in place and the DoD-wide data dictionary is being populated with standard financial management data elements. Long-term finance and accounting requirements have been documented and data and process models have been developed. Departmental personnel continue to work closely with other government and private sector groups to standardize data and formats of mutual interest and, thereby, promote increased use of capabilities such as electronic invoicing and electronic transfer of contract payments.

**E. Electronic Commerce/Electronic Data Interchange**

As part of the President's Electronic Commerce initiative and in cooperation with the Chief Financial Officers Electronic Commerce committee and the Financial Implementation Team for Electronic Commerce, the DFAS will assist with widespread adoption and implementation of electronic commerce concepts for financial operations across the Department. The DFAS has established an Electronic Commerce Program Office that is responsible for identifying and implementing--to the maximum extent possible--EC/EDI and EFT across the DFAS.

Some of the Department's highest EC/EDI priorities include implementing:

- the processes in program management systems to electronically request the validation of funds and recording of commitments in the accounting systems;
- the creation of electronic contracts and contract modifications in contract writing systems and the recording of such transactions in payment and accounting systems;
- the processing of electronic receiving reports to payment and accounting systems;
- the acceptance and processing in the payment systems of electronic invoices from vendors; and
- the automated pre-validation of payments to obligations prior to disbursing.

In addition, the Department is implementing recommendations developed in conjunction with the Acquisition and Financial Management Panel. This Panel, established by direction of the Deputy Secretary of Defense, developed, through a working group, 48 recommendations that focused primarily on short and mid-term improvements in the acquisition and financial management processes. These improvements include implementing the use of standard ANSI X12 transaction sets to transmit contract and contract modification data from contracting systems directly to contract administration, contract payment, and accounting systems. This will reduce manual data entry and improve data integrity across systems. Implementation of these improvements will be phased in over the next several years.

As of September 30, 1997, pre-validation efforts have been implemented in the major accounting systems for contract payments utilizing the DFAS developed Pre-validation System. Additionally, the effort to provide electronic contracts to the payment and accounting systems have been implemented. Also, electronic invoice processing has been implemented in payment systems along with EFT payments. Other vendor payment systems are in the programming phase for automating invoices and receiving reports.

One of the most important benefits achieved by utilizing EDI is one-time data entry. By capturing critical data at the beginning of our processes and utilizing EDI to forward data, the opportunity for data error is eliminated. With data error eliminated, more accurate information can be achieved, and the number of people and the amount of time spent on researching errors are reduced.

**F. Year 2000 Strategies**

The DFAS has been working progressively, since 1991, on the Year 2000 problem involving financial management systems. Whenever system changes have occurred, the DFAS has included Year 2000 upgrades in the applicable system modifications. The overall goal is to provide a DFAS-wide coordinated effort that ensures no financial management system is adversely affected by Year 2000 problems. This is being accomplished through a DFAS management strategy that calls for centralized policy and decentralized implementation using five phases--Awareness, Assessment, Renovation, Validation, and Implementation--supported by program and project management activities. Such a goal will allow the DFAS and DoD Components the flexibility to implement solutions, as deemed appropriate, while benefiting from best practices in a coordinated effort.

Each quarter, the DFAS components report the status of their systems. As of the October 1997 report, the DFAS is tracking a total of 176 financial and management information systems. Of those, 62 systems will be replaced or retired, 37 already are compliant, 15 are in the process of being made compliant, and 62 remain to be repaired. Because of dependence on interfaces with systems outside the purview of the DFAS, the DFAS requires each system manager to establish written interface agreements with their interfacing partners. Those agreements must address how and when the interfaces will be made Year 2000 compliant. As of the October 1997 report, over 1,100 interfaces had been identified, and 75 percent of the impacted interfaces have written interface agreements.

**G. Imaging**

The DFAS Document Imaging Program is a comprehensive business process improvement initiative designed to reduce the overall operational cost of DoD financial activities, and improve the delivery of customer services. This initiative aggressively applies new methods and technologies to improve customer service and reduce operating costs. Imaging can capture data electronically, eliminating time, expense and errors resulting from manually entering data. Under the Imaging Program, documents will be housed in master repositories located at each of the DFAS Centers and Operating Locations. User workstations will access digital documents from these repositories.

**H. Budget and Accounting Classification Architecture**

The Department's Budget and Accounting Classification Architecture initiative provides the means to record all financial transactions using a standard budget and accounting classification code (BACC) structure. This standard structure will ensure consistent financial information within the Department's financial systems. It also will aid significantly in the communication of data both between different financial systems and between financial and non-financial systems. The Department approved BACC structural data elements in September 1994. Since approval, the DFAS has modified and stabilized the BACC structural data elements; provided an expanded and more detailed BACC data element matrix; revised, expanded, and clarified the detailed

BACC data element definitions; developed a concept of operations for BACC implementation; and established a BACC task group to address special issues (e.g., an extensive and complex BACC database for systems managers use in accounting systems). The Department also established a BACC Project Office that is overseeing the creation of a DoD Centralized BACC Architecture Office and Sub-BACC Architecture Offices at all of the DFAS Centers. The BACC is expected to be implemented in migration systems where business case analyses justifies the investment.

**I. Electronic Document Management**

The Electronic Document Management (EDM) Program is designed to (1) provide users with on-line access to financial and accounting applications, (2) resolve management of large volumes of hard copy documents at centralized locations, (3) ensure the consistent implementation of business practices throughout the DFAS, (4) improve customer service, and (5) reduce operating costs.

EDM involves the collective application of three technologies, i.e., imaging, electronic foldering and workflow. Through these combined technologies users can view, retrieve, move, and store documents. The DFAS Columbus Center is implementing EDM for Contract Pay and the Omaha Operating Location is in the production mode using EDM for Vendor Pay. EDM will be deployed to other DFAS Operating Locations subsequent to a favorable Milestone III decision.

**J. Electronic Document Access**

A major element of the EDM Program is electronic document access (EDA), which uses Internet and world-wide-web technology to share documents across the Department. EDA offers read-only access to official contract documents in a common file format that eliminates the need for DoD users to maintain hard copy files. With the early success of contracts and Government Bills of Lading on the Web, EDA is being expanded to include payment vouchers and contract deficiency reports. In addition, new document types continually are evaluated for inclusion in the EDA effort.

**K. Teleservices**

The Teleservices Program is a business process improvement effort to improve customer service and reduce the cost of financial operations. Program goals are to integrate productivity tools with finance migratory systems in order to support financial operations, reduce costs, and improve customer support. The primary component of the Teleservices Program is empowering customers to obtain information concerning their account interactively. This is provided through interactive voice response and World Wide Web technology. The Teleservices Program is a DFAS-wide support strategy at the DFAS Centers and Operating Locations. These initiatives support retired and annuitant pay, active duty and reserve pay, travel pay, transportation pay,

contract and vendor payments, and other consolidated activities that receive a high volume of customer inquiries.

#### **L. Enterprise Integration**

Enterprise Integration (EI) represents a partnership of functional and technical management to achieve a combination of improved processes and effective application of information technology within and across the functional areas of the Department. The EI approach treats data as a corporate asset and assigns responsibility to the Office of the Secretary of Defense level Principal Staff Assistants for systems within their areas of purview. This approach relies on greater up front analysis and integration of business requirements. The result is intended to be reengineered business processes that efficiently capture and share data and standard systems for each business requirement.

#### ***Subsection 1.4. Other Management Improvement Efforts***

##### **SUMMARY OF ACCOMPLISHMENTS**

- In June 1994, the Department established a program entitled “Operation Mongoose” to detect fraud and reduce the vulnerability of computer networks to intrusion. Through FY 1997, this program has identified over \$7 million in potential overpayments.
- To enhance controls over the funds distribution process, the Department has begun to use the Program Budget and Accounting System (PBAS) to integrate better the distribution of funds and govern the reprogramming of funds. PBAS is being used in the Department of the Army and for various Defense Agencies; similar improvements are being made in the Departments of the Navy and the Air Force.
- The Department is using a management oversight structure to ensure the involvement of the Department’s senior leaders in the financial reform process. This includes a Financial Management Steering Committee, a Working Capital Funds Policy Board and, an Acquisition and Financial Management Working Group. These entities are actively engaged in approving and monitoring DoD’s financial management reform efforts.

The areas described on the following pages highlight some of the additional efforts underway within the Department that are expected to enhance the accuracy and timeliness of accounting data, reduce the overall cost of finance and accounting services, and strengthen internal controls.

#### **A. Security Strategies**

Presently, the DFAS is exploring new technology to implement the Automated Information System (AIS) Security Program to integrate available security capabilities (e.g., strong identifi-

cation and authentication, secure certification authority workstation, electronic signature, encryption and Internet management software) for all systems. The AIS Security Program will implement safeguards to protect DFAS AISs against intentional or unintentional modification, disclosure and destruction of information. AIS safeguards also will protect against denial of service to DFAS users and department activities, when appropriate. In pursuit of protecting DoD's finance and accounting information, DFAS is striving to implement an AIS Security Program that takes into consideration all possible means of eliminating unauthorized access. Additionally, the DFAS has established security strategies in the following areas: (1) network management, (2) technology exploration, (3) policy, (4) system certification and accreditation, (5) risk management, and (6) virus and intrusion detection.

## **B. Fraud Detection and Prevention**

Operation Mongoose is DoD's most visible fraud detection and prevention unit. It was established to minimize fraud against the financial assets of the DoD by analyzing data anomalies in search of fraud indicators sufficient to warrant investigation and to identify possible individual intrusion into financial systems for illegal personal gain. Operation Mongoose is managed by a program management team within the DFAS, and involves several other DoD organizations. Computer matching techniques are used to compare various computer systems operated by financial organizations within the Department to identify anomalies that occur when data that should be the same fails to match from one system to another. Operation Mongoose areas of current interest include validation of: (1) vendor payments; (2) military; civilian, and retired/annuitant payrolls, (3) transportation payments, and (4) payment system intrusion.

The Operation Mongoose methodology includes the combined team efforts of the DFAS, the Defense Manpower Data Center (DMDC) in Monterey, California, and the DoD Inspector General's Office, including the Defense Criminal Investigative Service (DCIS). These organizations work together to develop fraud indicators that are generated by discrepancies between systems, collect and compare data from all over DoD, detect the presence of anomalies within DoD systems, examine appropriate records to determine if the anomalies actually are a result of fraud, and pursue criminal charges against those persons responsible for committing fraud. The objective is to establish a permanently structured organization that will detect and prevent fraud by actively seeking it out, rather than waiting for it to surface by chance, be identified by informants, or be detected by random reviews that allow too great an opportunity for concealment of a crime.

The Operation Mongoose program manager has established a network that includes personnel (1) already in place at the DFAS Centers--especially in their internal review organizations, (2) in DoD financial and law enforcement agencies, and (3) in several outside agencies including the U. S. Secret Service. Operation Mongoose conducts pro-active reviews of payments in five functional pay areas--retiree/annuitants, civilian, military, vendor and transportation. The reviews have resulted in the elimination of millions of dollars of suspected fraudulent and erroneous regular payments. Operation Mongoose presently is in the process of completing the

development of a tracking and reporting system that will increase the ability to monitor and control the cases under consideration, and to keep the network of responsible organizations informed of their status.

### **C. Commercial Activities Program**

In FY 1995, DFAS began a full and active OMB Circular A-76, "Commercial Activities Program" by initiating two studies in the areas of Debt and Claims Management, and Facilities, Logistics and Administration.

During FY 1996, the Debt and Claims Management study was completed, resulting in the implementation of the Government's Most Efficient Organization (MEO). This MEO, which was fully implemented in May of 1997, consolidated the Debt and Claims Management functions at the Denver Center, and resulted in annual savings of over \$8.5 million.

A Facilities, Logistics, and Administration study, completed in May of 1997, also resulted in the implementation of a Government MEO. The MEO, which will be fully implemented in FY 1998, is expected to produce annual savings of over \$4 million.

Currently, DFAS has active A-76 studies in the areas of Retiree and Annuitant Pay, Civilian Pay, Defense Commissary Accounting, Vendor Bill Pay, DoD Transportation Accounting, and DoD Depot Maintenance Accounting. These studies, which are scheduled for completion during FY 1998 and FY 1999, are expected to yield annual savings of over \$7 million.

### **D. Prevalidation**

Section 8137, P.L. 103-335, as amended, required DoD to match all disbursements greater than \$5 million to specific obligations (prevalidation) effective October 1, 1995. However, by October 1, 1995, the Department elected to lower the threshold to \$1 million at all DFAS Centers, with the exception of the Columbus Center. On July 15, 1996, the Department lowered the prevalidation threshold for payments made by the Mechanization of Contract Administration Services (MOCAS), operated by the Columbus Center, to \$4 million. Other payment systems at the Columbus Center subsequently were lowered to \$1 million. Currently, for contracts awarded after September 30, 1996, MOCAS prevalidates all payments over \$2,500. By March 1998, it is expected that systems enhancements will provide necessary automated support to lower the threshold to \$0 on all new contracts awarded after September 30, 1996. As systems enhancements allow, it is the Department's intent to prevalidate all payments to contractors and vendors.



## Section 2

### Audited Financial Statements

This section of the Department's Financial Management Status Report and Five-Year Plan addresses current impediments to producing auditable financial statements for the Department. It also presents proposed actions to assist the Department in achieving auditable financial statements.

The greatest impediment to the Department's ability to produce auditable financial statements is inadequate accounting and finance systems and related nonintegrated feeder systems.

Each of the above stated impediments, along with proposed corrective actions is discussed below.

#### ***Subsection 2.1. Accounting and Finance Systems***

The DoD Inspector General has identified the lack of adequate accounting and finance systems as the primary deficiency that prevents the audit community from rendering more favorable audit opinions on the Department's financial statements.

##### ***1. Impediments***

The more significant deficiencies in the Department's accounting and finance systems include:

- Not all accounting and finance systems have integrated double entry transaction-driven general ledgers.
- The USGSGL has not been implemented fully in all systems.
- A variety of non-integrated databases are in use. (This precludes the easy or reliable integration or interfacing of information from other financial systems, as well as from other (nonfinancial) functional areas--e.g., personnel, acquisition and logistics.)
- Due to old technology, in both hardware and software design, the coding structure in current accounting and finance systems often is not sufficiently flexible to respond to changing requirements.

- Existing processes and accounting and finance systems often do not adequately capture and report all of the data necessary for preparing financial statements.

## 2. *Corrective Actions*

Detailed plans and schedules are being developed to eliminate accounting and financial reporting deficiencies in the Department's finance and accounting systems in order to comply with the CFO Act and other federal accounting and reporting requirements.

Where warranted, an incremental approach is being used to transition customers with similar requirements to similar interim migratory systems in order to conserve resources and to quickly collapse the population of existing systems that must be supported, and to facilitate the transition to more desirable systems. At the current time, migratory systems are being deployed while also being enhanced to correct systems deficiencies mentioned above. In some instances, systems integration/interface is expected to be achieved through implementing a central database that provides a warehouse capability to store and share data for financial management purposes. Ultimately, it is anticipated that most information will be transferred in an electronic mode for applications such as vendor invoicing, contract payments, travel settlements and direct deposit of military and civilian pay.

### *Major Milestones*

<u>Milestone</u>	<u>Estimated Completion Date</u>
Reengineer DoD finance and accounting processes.	Continuous
Complete "Year 2000" systems changes.	12/1998
Resolve interface/integration requirements with the DoD nonfinancial business environments.	9/2001
Complete systems consolidation effort.	9/2002
Complete incorporation of appropriate accounting and finance systems enhancements--including data standardization.	9/2002
Begin first complete fiscal year under the new systems architecture.	10/2002

***Subsection 2.2. Feeder Systems***

The systems operated in nonfinancial functional areas--where many of the transactions (and as much as 80 percent of the data used in financial processes) are generated--e.g., inventory, property and other areas systems--do not report adequately, or value properly, amounts that ultimately are required to be included in auditable financial statements. The auditors consistently have stated that many of the Department's other (feeder) systems that interface with financial systems do not meet requirements for documentation, audit trails and general ledger control. Additionally, these feeder systems often are not under the control of the Department's Chief Financial Officer.

***1. General******a. Impediments***

Feeder systems, in nonfinancial functional areas such as personnel, acquisition and logistics, have not been modernized to ensure proper recording of finance and accounting data. Additionally, those systems do not have common data elements. This results in non-standard interfaces that are error prone. Although, in many instances, feeder systems are interfaced with financial systems, numerous discrepancies exist between the data resident in each system. In some cases, a systematized process does not exist for transmitting financial data, in which case, the data is furnished via spreadsheets or paper submissions. Nor, in many instances, have these systems been modified, or the underlying processes supporting these systems been reengineered to comply with new accounting standards.

***b. Corrective Actions***

The architecture of the Department's target accounting systems has been designed to require the use of standard data--in financial and nonfinancial feeder systems--to facilitate the sharing of data and the standardization of interfaces. Such interfaces are expected to collect financial transaction data and update subsidiary and general ledger accounts. In conjunction with this effort, the Department is working to clarify data management responsibilities and to assign responsibility and accountability for recording, maintaining and managing financial data in nonfinancial systems--to include information needed to meet new accounting standard requirements.

<i>Major Milestones</i>	
<u>Milestone</u>	<u>Estimated Completion Date</u>
Develop and promulgate DoD guidance to specify requirements for recording and maintaining financial data in nonfinancial feeder systems.	1/1998
Resolve interface/integration requirements between the DoD financial and nonfinancial business environments.	9/2001

## **2. *Reporting and Valuation of Inventory***

Inventories comprise approximately 75 percent of the total assets of the Department's Working Capital Funds. Because of the high proportion of inventory to overall assets, material weaknesses in inventory impact on the fair presentation of the financial statements for the Department's Working Capital Funds.

### **a. *Impediments***

Accounting standards require inventory to be reported at historical cost or latest acquisition cost. Unfortunately, the Department's inventory systems do neither. Instead, DoD's inventory systems value inventory at standard (selling) price. Accordingly, inventory value amounts presented on auditable financial statements must be calculated prior to their inclusion in auditable financial statements. Additionally, inventory valuation and account classification problems exist in the Department's inventory accounts. As a result, the auditors maintain that they are unable to independently verify reported inventory account balances.

Implementation of OMB Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property," has highlighted the difficulties of transitioning to procedures requiring data not contained in general ledger accounts nor readily available within current inventory management systems. The lack of critical accounting information from inventory systems necessitates the development of work-around procedures to derive the inventory valuation, Cost of Goods Sold, and other elements that affect the Net Operating Results. Without adequate information being available in an automated mode, the conversion from inventory carried at "standard price" to "Latest Acquisition Cost" (with the accompanying "Allowance for Holding Gains/Losses") for reporting purposes is difficult to calculate and verify.

***b. Corrective Actions***

In addition to the corrective actions addressed in B.1., above, (General Feeder Systems), the Department is taking aggressive action to remedy procedural, systemic, and knowledge deficiencies. Each of the Military Department's audit services (Army Audit Agency, Naval Audit Service, and Air Force Audit Agency) have been working with the Directorate for Accounting Policy, Office of the DoD Deputy Chief Financial Officer, to review the financial information provided by the applicable parent Military Department's logistics systems and determining the ability to generate data needed to properly account for inventory in accordance with SFFAS No. 3, "Accounting for Inventory and Related Property." An Army Audit Agency team in St. Louis, Missouri, and a Naval Audit Service team in Mechanicsburg, Pennsylvania, commenced their review in March 1997. An Air Force Audit Agency commenced its review in April 1997. These reviews, in addition to evaluating the ability of logistics systems to generate necessary financial data, also have been validating the procedural guidance for inventory accounting. Personnel at the Military Department logistics centers, and the Defense Finance and Accounting Service Centers, were trained on the requirements of accounting for inventory. Army, Navy and Air Force auditors also participated in the same training.

***Major Milestones***

<u>Milestone</u>	<u>Estimated Completion Date</u>
Conduct training on the requirements of accounting for inventory for the Army, Navy and supporting DFAS Service Centers.	Completed
Complete review of the financial data for the Army and the Navy.	Completed
Conduct training on the requirements of accounting for inventory for the Air Force and supporting DFAS Service Center.	Completed
Complete review of the Air Force financial data.	Completed
Evaluate the results of the reviews of the Military Department's inventory accounting processes.	2/1998
Implement approved changes resulting from the reviews.	12/1999
Implement General Corrective Actions (See Subsection 2.2.1. above)	9/2001

***3. Reporting and Valuation of Real and Personal Property***

Real and personal property compose approximately 59 percent of total assets of the Department's Agencywide Financial Statements. Because of the high proportion of real and personal property to overall assets, material weaknesses in this area impact the fair presentation of the financial statements for the Department.

*a. Impediments*

Existing accounting systems were not designed to satisfy the asset, liability and equity accounting data required for financial reporting purposes. Accordingly, when the need for such data arose, the financial systems depended on functional activities, and their property accountability systems, rather than financial systems, to furnish required data. Consequently, the Department's financial statements are compiled using property management systems that were not designed or intended to be used for financial reporting. These management systems serve nonfinancial managers well but were not designed to identify and retain key financial data required to produce auditable financial statements--e.g., acquisition costs (versus standard prices); capitalization thresholds; asset modification or overhauls or repair costs; and in-house project investment. In addition, the accounting systems do not produce account-oriented transaction files or subsidiary ledgers and the acquisition cost of many assets cannot be verified because of system problems and document retention practices. As a result, the auditors maintain that they are unable to verify account balances. Additional examples of deviations include:

- Government Property in the Possession of Contractors. The Department's accounting systems do not capture the value of Government property acquired by, or in the possession of, contractors. (The Federal Acquisition Regulation, in Part 45, Subpart 45.102, provides that DoD's contractor's, rather than the DoD, shall maintain the official property records for such government property. However, problems have been identified with the systems used to capture and report such information.) The auditors recommend that the DoD Components use contractor reports as an alternate source for reporting the value of such property. Because the data in contractor's reports is prepared from accountable records maintained by contractors, the auditors believe that the data is more representative than the figures available from the Department's systems.
- Unit and Installation Property. Accounting systems do not capture the values of equipment and real property owned by field units and installations. Instead, the values reported in the financial statements for unit and installation-owned assets are derived from asset management and physical accountability systems. However, the auditors have indicated that the data in these systems cannot be independently verified.
- Wholesale Assets. Wholesale assets represent assets in storage at depots, assets in transit from contractor to user activity, and assets on loan. The auditors have concluded that data in the accounting systems for wholesale assets are neither complete nor accurate. The inventory-in-transit and inventory on loan typically are dropped from inventory once officially transferred/shipped to an alternate supply depot or receiving activity. Inventory-in-transit is recorded on inventory records when received; and inventory on loan is not tracked outside of the

inventory accounting system until returned to a supply depot. Both types of transactions create a void within the supply system and produce questionable audit trails.

- Equipment Awaiting Repair. The reported value for unserviceable equipment awaiting repair sometimes is reported at full standard price in the inventory system, but their value should be reduced by the estimated costs of repair.

***b. Corrective Actions***

To remedy these deficiencies, the Department has selected, and is deploying DoD-wide, an integrated property system--the Defense Property Accountability System (DPAS). The DPAS provides for financial control over real and personal property and is expected to replace over 150 separate property systems in DoD organizations.

***Major Milestones***

<u>Milestone</u>	<u>Estimated Completion Date</u>
Complete fielding of the DoD-wide property accountability system.	9/2000
Complete interface/integration requirements with other systems.	9/2001
Begin first complete fiscal year with the standard DoD-wide system that integrates property accountability with financial accounting records and reports.	10/2001

***Subsection 2.3. New Governmental Accounting Standards***

The Federal Accounting Standards Advisory Board (FASAB) was established to recommend accounting standards for the federal government after considering the financial and budgetary information needs of congressional oversight groups, executive agencies and the needs of other users of federal financial information. To date, the FASAB has published eight “comprehensive” accounting standards which are central to meeting, effectively, the financial management improvement goals of the CFO Act of 1990, as amended. However, a forum for effectively clarifying the accounting guidance contained in those standards has not been established to resolve differences in interpretation that may result in disclaimed audit opinions when the issues are not deemed to have a government-wide implication. This is particularly troublesome for the Department because many of the accounting standards are anticipated to have a significant impact on existing DoD accounting policy, procedures and systems. Examples of some of the major changes and their anticipated impact upon the Department are discussed in the following paragraphs.

## *1. Impediments*

- Imputed Financing and Expenses. Paragraph 152 of SFFAS No. 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” requires that when a loss on a contract is probable (more likely than not) and measurable (reasonably estimable), it should be recognized over the life of the contract in proportion to the estimated total cost, rather than recognized immediately. This requirement is an exception to SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” under which a loss on a contract is recognized at the time when expected costs exceed expected revenue. The FASAB Board believes this exception is appropriate because it provides a more accurate measure of the entity's net cost of operations during each reporting period--rather than recognized in the single period when it was concluded that the loss was probable and measurable. This could require the Department to assess each of its tens of thousands of reimbursable orders issued and accepted each year for their possible inclusion as imputed revenue or expenses. In addition, the Department could be required to redesign current systems to recognize--on a monthly basis--imputed revenues and expenses. The Department advised the U.S. Standard General Ledger Issues Resolution Committee that a mechanism must be developed for capturing and reporting imputed revenue to the benefiting activity. The U.S. Standard General Ledger Issues Resolution Committee replied on March 11, 1997, stating that SFFAS No. 7 requires only that the imputed financing source must be outside the reporting entity and that the issue of providing additional information to the benefiting activity is outside the USGSL Issues Resolution Committee and would not be addressed.

- Accrual Adjustments. Paragraph 52 of the SFFAS No. 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” includes a requirement to record an “accrual adjustment” for returns, allowances and price redeterminations. Paragraph 129 of the same SFFAS explains that “Uncollectible amounts due to other reasons--such as returns, allowances, and price redeterminations--would, however, be recognized as revenue adjustments.” This treatment is parallel with the treatment in paragraph 52 where refunds, adjustments and abatements are deducted from gross revenue rather than recognized as an expense. Under current practice and private sector standards, these uncollectible amounts are commonly treated as revenue adjustments but are not always separately disclosed. The treatment can only be parallel where the exchange activity does not have an administratively or legally enforceable right to the monies they have collected or the accounts receivable they have established. Those situations do not occur in exchange transactions within the Department of Defense. The proposed new general ledger accounts contain six new exchange contra accounts to accommodate the SFFAS No. 7 requirements. Those new contra revenue accounts are revenue from: (1) sale of goods, (2) sale of services, (3) interest, (4) benefit program revenue, (5) insurance and (6) other revenue. Once



implemented in Treasury publications, the Department will be required to implement these new accounts or be found to be noncompliant with the USGSGSL--even though the situation for which the accounts were established does not exist within the Department.

- New or Revised Accounting Standards. The addition of new standards, or the revision of existing standards, that require material systems changes will significantly impair the Department's ability to produce auditable financial statements.

## 2. *Corrective Actions*

The Department has embarked on a near-term strategic project to revise, modify, and update the "DoD Financial Management Regulation" (DoD 7000.14-R) to incorporate the SFFASs, as well as its internal form and content guidance, issued annually following guidance issued by the OMB. The intent of updating the Regulation is to provide a basis for reprogramming or developing new accounting and reporting systems. However, relief from unclear accounting standards can only be obtained from the OMB.

<i>Major Milestones</i>	
<u>Milestone</u>	<u>Estimated Completion Date</u>
Seek Office of Management and Budget relief from unclear accounting standards.	Ongoing
Incorporate the existing eight FASAB accounting standards into the "DoD Financial Management Regulation."	9/1998
Modify financial systems to incorporate the requirements of the current FASAB accounting standards.	9/2002

### **Subsection 2.4. Unresolved Audit Issues**

Audit opinions rendered on financial statements are intended to indicate the degree of accuracy reflected in the financial statements. Although perhaps unintended, audit opinions frequently are misinterpreted to reflect the quality of stewardship of public funds and assets. A clean opinion is interpreted to reflect favorably upon the management of an agency whereas a qualified, or lesser, audit opinion often is misinterpreted to reflect less favorably on management. In the examples cited below, DoD management was portrayed in a less than favorable manner due to unresolved audit issues.

### *1. Impediments*

- Reporting of Progress Payments. The auditors cited the Department's presentation of finance payments for weapons systems as a reason for disclaiming an opinion. The audit report stated that, "...guidance recommended by the FASAB and published by the OMB did not state where progress payments should be presented on the financial statements,..." However, the auditors stated a belief that the DFAS Centers should not present finance payments as Advances or Prepayments. The Department objects to the use of unauthoritative interpretations as a basis for disclaiming opinions on CFO financial statements. Unless resolved, the Departments of the Army, Navy and the Air Force will be forever impeded from obtaining other than a disclaimed opinion.
- Revenue and Expenses. The Department of Defense and the audit community disagree on whether the resources administered by the Defense Security Assistance Agency (DSAA) constitute program funds under the control and discretionary authority of the DSAA or whether the DSAA is required to use the funds as described in the Foreign Military Sales agreements negotiated with customer countries. The audit community initiated findings concluding that the funds held in the Foreign Military Sales Trust Fund account are discretionary funds to be used by the DSAA in execution of its programs and therefore should be reported as income and expense on the Statement of Operations and Changes in Net Position in the CFO financial statements. The Department contends that the funds encompassed by the Foreign Military Sales Trust Fund are amounts belonging to foreign governments and the DSAA acts in only a fiduciary capacity in paying bills from these entrusted funds. Consequently, the funds are reported as non-entity assets on the CFO financial statements and there is no reporting of income and expense on the Statement of Operations and Changes in Net Position. Further, the Department contends that all funds assets are used in accordance with the terms of the trust, which the DSAA cannot unilaterally modify, thus, trust fund moneys are maintained separately and not comingled with the DSAA's own funds.
- Inventory Valuation. The Department of Defense and the audit community disagree on when to recognize unrealized gains and/or losses on inventory held by the Supply Management business areas within the Defense Working Capital Fund. Specifically, the auditors believe that several of the unrealized gain and unrealized loss inventory accounts should be classified as gains or losses in the period in which they occur. The DoD position has been that an inventory gain or loss occurs only upon sale or disposal of inventory. The purpose of unrealized gain and loss inventory accounts is to hold a gain or loss in abeyance until inventory is sold or otherwise disposed. Unrealized gain inventory accounts decrease the value of inventory while unrealized loss inventory accounts increase the value of inventory. Gains and losses of the period have no affect on inventory valuation.

## 2. *Corrective Actions*

A Financial Management Executive Committee has been established within the DoD to provide a forum for resolving issues concerning the audit of DoD CFO financial statements. The Executive Committee is comprised of representatives of the Office of the Under Secretary of Defense (Comptroller), the Defense Finance and Accounting Services and the Inspector General, DoD.

<i>Major Milestones</i>	
<u>Milestone</u>	Estimated Completion <u>Date</u>
Hold monthly Executive Committee meetings to resolve issues concerning the audit of DoD CFO financial statements.	Continuous

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# APPENDICES